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Addis Ababa, 5-14 March 1984

REPORT OF THE SECOND WORKSHOP ON LEAKAGES IN AFRICAN ECONOMIES

Addis Ababa (Ethiopia), 21-23 February 1984

TABLE OF CONTENT

Page

A. ATTENDANCE AND ORGANIZATION OF WORK 1

B. OPENING STATEMENT 2

C. SUMMARY OF PROCEEDINGS 3

- Foreign currency leakages in the Nigerian economy, study conducted by Nigerian Institute of Social and Economic Research (NISER), Ibadan, Nigeria 3

- Study on foreign exchange leakages: the case of financial management institutions in Senegal, by Mr. C. Sene, CODESRIA Consultant, Senegal 6

- Foreign exchange leakages in Sudan, by Elfatih Shaaeldin and Siddig Umbadda, Development Studies and Research Centre (DSRC) University of Khartoum 8

- Study on resource leakages in Africa: Education abroad: The case of Congo, INSSEJAG, Congo 9

- Investment codes and resource leakages: The case of Togo, ESTEG, Togo 10

- Resource leakages in Upper Volta: The case of pilgrimages, by T.J.H. Kabore, CEDRES, University of Ouagadougou, Upper Volta 11

- Unsuitable technology and resource leakages in African economies; The case of Zaïre, by Ngalamulume Tshilumbayi IRS, Kinshasa 12

- Leakages in African economies and their impact on available development resources and on the increase of the external debt: Part I - The structurally dependent economies of Southern Africa, Part II - The case of Lesotho prepared by E. Michael Mhlanga for the Institute of Southern African Studies, National University of Lesotho 13

Outline, content and implementation of the overall study on leakages (agenda item 4) 15

Report to the Third Session of the Joint Conference of African Planners, Demographers and Statisticians (agenda item 5) ... 16

A. ATTENDANCE AND ORGANIZATION OF WORK

1. The Second Workshop on Leakages in African Economies was held at ECA Headquarters, Addis Ababa, from 21 to 23 February 1984. The Workshop was jointly organized by ECA and CODESRIA and was co-chaired by the representatives of these organizations. It was attended by the following representatives of African Research Institutes and Intergovernmental Organizations: Mr. M. Mhlanga, Institute of Southern African Studies (ISAS), National University of Lesotho; Dr. E.C. Edekwu, Nigerian Institute of Social and Economic Research (NISER); Mr. C. Sene, Faculté des Sciences Juridiques et Economiques, Université de Dakar; Dr. Elfatih Shaaeldin, Development Studies and Research Centre (DSRC), Sudan; Prof. Simon M. Mbilinyi, Principal Secretary, Ministry of Agriculture, Tanzania; Prof. T.H. Kabore, Centre d'Etudes, de Documentation, de Recherches Economique et Sociale (CEDRES) Ecole Superieure des Sciences Economiques (ESSEC) Université de Ouagadougou, Upper Volta; Mr. T. Ngalamulume, Institut de Recherche Scientifique, Centre de Recherche de Kinshasa (CRK) Zaïre; Mr. Pierre Simon, Membre de Counseil Suprême de la Révolution, République Démocratique Malgache; Mr. Abdalla Bujra, Executive Director, Council for the Development of Economic and Social Research in Africa (CODESRIA); Dr. Delphin Rwegasira, African Development Bank (ADB) and Mr. O. Aseto, Organization of African Unity (OAU).

2. The Workshop had before it eight indepth studies of various aspects of leakages in African economies prepared by the participating institutes in accordance with decisions taken by the first Workshop which was held in Addis Ababa from 7 to 10 January 1983 the report of which (SERPD/WLAE/83/3) was also available.

3. The Workshop adopted the following agenda:

1. Opening of Workshop by the Executive Secretary
2. Adoption of agenda and organization of work
3. Review of papers prepared by research institutes;
   - (a) Foreign currency leakages in the Nigerian economy, NISER, Nigeria
   - (b) Study on foreign exchange leakages: the case of financial management institutions in Senegal, CODESRIA Consultant, Senegal
   - (c) Foreign exchange leakages in Sudan, DSRC, Sudan
   - (d) Study on resource leakages in Africa: education abroad, the case of Congo, INSSEJAG, Congo
   - (e) Investment codes and resource leakages: the case of Togo, ESTEG, Togo
   - (f) Resource leakages in Upper Volta: the case of pilgrimages, CEDRES, Upper Volta

(g) Appropriate technology and resource leakages in African economies: The case of Zaire, IRS, Zaire

(h) Leakages in African economies and their impact on available development resources and on the increase of the external debt, Part I: The structurally dependent economies of Southern Africa; Part II: The case of Lesotho, ISAS, Lesotho

4. Outline, content and implementation of overall study on leakages

5. Preparation of report to the Third Session of Joint Conference of African Planners, Demographers and Statisticians

6. Closure of meeting.

B. OPENING STATEMENT

4. The Workshop was opened by Prof. Adebayo Adedeji, Executive Secretary of ECA.

5. In his opening statement, the Executive Secretary said that when the Workshop was first convened in January 1983, the project on resource leakages was new in two respects: it was the first time that ECA and the African Research Institutes came together to work jointly on a research project; the theme chosen, namely, resource leakages in African economies, was a relatively unexplored one even though its direct effects on the overall development process were suspected to be of considerable significance.

6. He said that significant strides have been made since that first meeting of the Workshop. The concept of leakages has been clarified, their main types identified and their overall financial magnitude estimated.

7. The present Workshop, he said, had as an important substantive task to critically review the country case studies and indepth studies on special leakages that have been prepared by the participating institutes as requested by the first Workshop. He commended the research institutes for the efforts they had made in preparing the studies given the difficult financial situation in which most of them were.

8. With regards to another substnative task before the Workshop, namely the consideration of the outline, content and implementation of the overall study on leakages that would eventually be published, Mr. Adedeji hoped that by the end of the meeting there would be agreement on the modality of implementing the study so that by the end of the year another meeting of the Workshop would be organized to finalize the publication.

9. In conclusion he thanked CODESRIA and its Director, Dr. Bujra, for his continued support for the project. He also expressed thanks to the Friedrich Ebert Stiftung for providing the financial resources that made the convening of the present Workshop possible.

C. SUMMARY OF PROCEEDINGS

Foreign currency leakages in the Nigerian economy, study conducted by Nigerian Institute of Social and Economic Research (NISER), Ibadan, Nigeria

10. The representative of NISER made a detailed presentation of this paper. He defined a leakage as an inefficient and fraudulent use of the resources available to a country which resulted not only in dampening the level of national income but also in an unjustifiable outflow of foreign exchange resources. He expounded on the difficulties involved in providing an analytical framework for a study of leakages in economies such as Nigeria. However, irrespective of political regimes and economic systems, the accounting balance concept of the balance of payments provides an ideal conceptual framework. He identified four categories of leakages in the Nigerian economy, namely - leakages encountered in merchandise trade, leakages associated with invisible trade, donations and capital leakages. According to the representative, leakages were perpetuated in the Nigerian economy by the colonial legacy, the oil boom of the 1970's (which encouraged the import of non-essential imports), investment laws, import substitution policies, the operations of parastatals, multinational corporations and Nigerian entrepreneurs.

11. The representative referred to quantitative non-financial leakages, and pointed out that leakages were likely to exist when trade restrictions and exchange rate controls created sub-optimal trade conditions. Thus leakages would be zero, given the structure of the economy, when trade conditions were optimal, and efficiency in resource allocation would be attained when leakages were zero.

12. In merchandise trade, four main categories of leakages namely overinvoicing of imports and underinvoicing of exports, sub-optimal trade conditions, import substitution and unrecorded trade were important in the Nigerian context. The practice of over-invoicing of imports has been aggravated by the scarcity of foreign exchange at home as well as the existence of exchange control measures in the economy. It was also motivated by the desire for international liquidity. The amount of leakages due to overinvoiding of imports was estimated at ₦59.2 million in 1971 and ₦1.2 billion in 1981 while the amount of leakages due to underinvoicing of exports was estimated to have ranged from ₦71.4 million to ₦1.7 million in 1980. Since fuels, especially petroleum, constitute the bulk of Nigeria's exports, leakages arising from oil export alone amounted to about ₦1.4 billion. More substantial leakages

occured in unrecorded trade than in recorded trade. Estimates of the former accounted for 25 per cent of GDP in 1980. The proportion could have been as high as 30 per cent in 1984.

13. In Nigeria management services were a significant source of foreign exchange leakages. These occured mainly through training courses organized abroad, consultancy services, technological transfer, licence agreement between subsidiaries and multinational corporations.

14. The success of any policy measure to mitigate leakages depended on the willingness of target institutions to respond to policies. Since this was related to the patriotism of the Nigerian nationals many of whom connived with aliens to frustrate restrictive policies, ultimately, it followed that Nigerians' attitude to government policies must change if the problem of leakages were to be minimized. Nigerians needed to be educated on the adverse effects of foreign currency leakages on the economy. There should be vigorous action by the government to restructure the economy such that greater dependence is placed on the domestic sector, and that research and development for the promotion of agriculture, technology and industry, are encouraged. In addition, the government should streamline its restrictive procedures on exchange control and imports. All regulations relating to joint ventures between Africans and foreign businesses should be reviewed with a view to streamlining the regulations in light of the prevailing realities of the African economy. Regional co-operation among member Countries of ECOWAS, the NISER representative said, should be vigorously pursued, and efforts should be made by all African countries to strengthen their domestic economic base. A common policy towards transnational corporations should also be adopted.

15. In the discussion that followed the presentation, a member of the ECA Secretariat observed that while it was true that the balance of payments concept provided a better understanding of the sources and processes of leakages, it was however, doubtful if the balance of payments concept was sufficiently exhaustive to examine leakages in its broader context. For instance, the concept did not allow a thorough examination of optimality in resource use. Indeed efficiency in resource use was a highly complex subject and extremely difficult to quantify. Yet the available information pointed to substantial inefficiencies in resource use in developing African countries (for example Nigeria) which could not be ignored or overlooked. The representative of the Secretariat noted that except for a passing reference, the impact of the overvaluation of the Naira and the effects of the Nigerian oil boom of the 1970's on foreign exchange leakages were not sufficiently explored in the study. The reader is also nowhere in the paper enlightened on the magnitude and the impact of foreign exchange leakages on inter-industry linkages.

16. With respect to foreign exchange leakages resulting from technological transfer, the representative of the Secretariat said that two important issues deserved careful consideration. Firstly, since the inputs of transnationals were provided in a package form, Nigeria was precluded from utilising or developing a part of its own productive resources which led to a loss of opportunities for learning by doing. Secondly, the basic decision on pricing rested not with the acquiring firms but with the supplying firms at their regional or global headquarters.

17. The representative of the Secretariat recognized that the paper covered the issue of transfer pricing particularly in respect of (i) corporate profit taxes; (ii) import duties; (iii) exchange risk exposure; (iv) profit remittances. He however thought that a rough arithmetical indication of the magnitude of foreign exchange leakages from these important sources would have been useful.

18. The representative of the Secretariat further noted that the socio-economic factors promoting brain drain in developing Africa were dealt with at considerable length. However, the paper overlooked political factors that accentuated the emmigration of skilled African professionals.

19. The efforts made by the Nigerian Government to mitigate the flow of foreign exchange leakages were significant. The Enterprises Promotion Act (Decree of 1972), the Economic Stabilization Measures of 1982, the National Office of Industrial Property set up in 1979, the Exchange Control (Anti-Sabotage) Decree of 1977, the Pre-Shipment Inspection of Import Decree, 1978 were all aimed at checking the fraudulent and unlawful outflow of foreign exchange leakages from Nigeria.

20. The point was made that in examining the problem of leakages due emphasis should be given to the political economy of the countries concerned. It was also pointed out that the integrity of Government officials charged with the responsibility of issuing import licences etc. needed to be ascertained. One participant observed that the problem of leakages could not be discussed outside its ideological context and in this light the nature and the structure of the African economy had to be carefully examined. Another participant stated that a great deal of attention needed to be given to methodological issues to determine the magnitude of the flows. In addition, the overvaluation of the Naira had not been adequately dealt with in the paper. He further said that serious attention should be given to the drain of highly skilled personnel than has been the case before.

21. In response to the queries raised on the paper, the NISER representative recognized that because of the narrow data base and the limitation of time, the paper had many shortcomings. His Institute had to take the least cost method to complete the study by relying mainly on data provided by the Central Bank and the Ministry of Finance. He acknowledged the omission of issues such as the overvaluation of the

Naira and the impact of leakages on inter-industry linkages. On the question of exchange rates, he reiterated that the official exchange rate did not respond to prices mainly due to the nature of the Nigerian economy. With regards to the issue of administrative discipline by public officials he said that no amount of policy measure could solve the problem if government bureaucrats continued to be corrupt, indisciplined, autocratic and inefficient. The work ethics and attitudes of the African bureaucracy needed to be radically altered, functionally reoriented and made achievement centred. Overall, he thought that it was of paramount importance that the international economy was restructured from a state in which Africa was a dependent marginal participant to a state in which Africa was an equal partner in an interdependent world.

Study on foreign exchange leakages: the case of financial management institutions in Senegal, by Mr. C. Sene, CODESRIA Consultant, Senegal

22. In presenting his paper the author pointed out that the issue of resource leakages was a complex and a very wide subject. The paper dealt mainly with leakages arising from the management of foreign currency. Senegal, he said is linked to France within the framework of the franc zone system, and is sharing a Central Bank, the Central Bank of West African States (BCEAO) with other West African countries. Previously the view was generally held that within the franc zone, France was subsidized by the African members since these countries had a surplus on their current account. In point of fact since 1977, the BCEAO zone has been financed by France, mainly due to a deficit on their current account. The problem was in the leakage arising from the automatic depreciation of the CFA franc because of its fixed parity with the French franc. Imports were more costly and in particular, interest payments in currencies other than the French franc rose when the CFA franc fell along with the French franc relative to the dollar. The paper gave special attention to the interest rate policy of the BCEAO. That policy was constrained by the regulations of the franc zone since it was based on the fixed parity of the CFA franc vis-à-vis, the French franc and led to interest rates which were too low relative to existing rates and aggravated the flight of capital from the BCEAO area to the financial markets of France where earnings were higher. This constituted a serious leakage and the consultant considered that the policy followed was an imperfect model of the policy followed by the American Federal Reserve Board and needed to be improved. He recognized that the issue was not simple because of the increased costs for banks and national treasuries implied by higher interest rates.

23. Commenting on the paper a member of the Secretariat commended the paper and the way it was presented. He remarked that the benefits from the franc zone system could not be measured in terms of loss or gain of foreign currency alone, and that there were important advantages in terms of convertibility, ability to import, access to financial markets etc. With regard to the question of interest rates, he remarked that the paper was a proof that African economic agents were sophisticated enough to react to parameters such as the rate of exchange of the currency and the rate of interest, and that consequently this fact had to be taken into account by policy makers. A participant remarked that the depreciation of the French franc could be a source of leakage only if local monetary authorities did not have a measure of autonomy in the creation of money, the level of credits, etc. Moreover he asked whether there was empirical proof to the statement according to which capital flows were responsive to the interest rate, while investment was not. He drew attention to the difference in monetary performance in franc zone countries and in "anglophone" ones, and said that monetary discipline was an essential component of development policies which had to be understood and practiced by governments. It was recognized that the question of monetary discipline was an important issue. The importance of overvaluation or undervaluation of currencies as sources of leakages was questioned by some participants. It was noted that at the initial stage of structural change, it was difficult for official rates of exchange to reflect the actual market rates. The question was raised as to whether the discipline imposed externally by the French authorities was an advantage especially in the context of the objectives of attainining self-reliance and self-sustainment. The interest rate differential was a very important source of leakage. The paper showed that leakages were rooted in the dependency relationship between the region and the industrialized countries. Some clarifications were requested as to whether the link between the CFA and the French franc was a complete one, and how the countries of the zone which were in a situation of structural deficit were accomodated.

24. In response to the issues raised the consultant said that he shared the Secretariat's remarks about the non-measurable benefits of the franc zone, and that this was expressed on page 12 of his paper. He was also of the opinion that African economic agents were responsive to economic parameters. Devaluation he thought was both a technical and a political problem. African currencies were generally over-valued, but for political reasons devaluation was usually difficult. There was empirical proof of the close relationship between capital formation and the rate of interest, since capital formation had increased while the rate of interest remained stable. Economic issues were linked to political ones. The solution was

not to be found in theoretical terms but it was essential to view issues from an internal point of view and use interest rates as an instrument to promote savings and support economic activity. In particular, the system of production should be transformed. Greater attention should be given to food crop production. Here the interest rate could be a useful instrument in mobilizing savings.

Foreign exchange leakages in Sudan, by Elfatih Shaaeldin and Siddig Umbadda, Development Studies and Research Centre (DSRC) University of Khartoum

25. The representative of DSRC, Sudan, introduced this paper. His statement covered the following points:

(a) Definition and methodology: the definition of leakages adopted by the Workshop of January 1983 was the basis of the study;

(b) Leakage mechanisms: historically, leakages began in Sudan as a result of overinvoicing of imports and underinvoicing of exports during the period when external trade was dominated by foreign firms. However, after 1979 when the bulk of external trade came under State control, there was a change in the pattern of leakages. The public sector was plagued by mismanagement and embezzlement of funds while the private sector wanted to benefit from differences between domestic and foreign prices as well as between the official and black market rates of exchange. Hence, the significance of smuggling and capital flight;

(c) Magnitude of leakages: it was estimated that in 1981 leakages accounted for about 161.2 million pounds or 13 per cent of exports and 6.1 per cent of imports;

(d) Main policy recommendations: the authors questioned the rationality of foreign exchange liberalization measures and felt that it was possible to attract capital within the framework of a system of foreign exchange control.

26. In the ensuing discussion of the paper, a participant wanted to know why there were differences between international prices and prices quoted by public Sudanese export-import enterprises. Another participant drew attention to the question of the optimal use of resources because the problem of opportunity costs was of crucial importance and a country whose volume of exports fell would suffer a net leakage of resources while if it used the resources rationally such a situation could be avoided. With respect to agricultural exports, Nigeria and the United Republic of Tanzania provided examples of the above situation; the volume of exports in the United Repbulic of Tanzania had dropped by a quarter since 1970. Other questions were asked on the figures presented in the study while the secretariat stated that the recommendations were not in line with the findings which demonstrated that State control had not been able to stop leakages of the Sudan's resources.

27. In his reply to the questions raised during the discussion, the representative of DSRC, Sudan, clarified the figures presented in the study and agreed that resources were not utilized optimally. With respect to the recommendations, he mentioned the proposals made by some international organizations such as the International Monetary Fund and the World Bank to eliminate the disparities between domestic and international prices. On the question of bilateral trade, governments were forced to sign agreements that were not to their advantage because of pressing financial needs.

Study on resource leakages in Africa: Education abroad: The case of Congo, INSSEJAG, Congo

28. Since the author of the study could not attend the meeting, the study was introduced by a representative of the Secretariat who drew the attention of participants to a summary of the study which had been prepared. The study was in four parts:

(a) Introduction outlining the subject and method used;

(b) Leakages resulting from trade in goods and services, particularly imports;

(c) Leakages caused by the inadequacy of the educational system;

(d) Conclusion.

29. The paper began with the idea that accumulation was a fundamental process for development because it led to the mobilization and utilization of economic surpluses. Leakages were first and foremost surplus leakages. Three basic types of leakages were identified in line with the definition established by the first Workshop that met in January 1983. On the working assumption that imports were surplus leakages one realised that over the past few years there had been a considerable increase in imports while considerable import substitution potential had been neglected. In particular, the Congolese forest was a source of economic surplus formation which had not been tapped optimally.

30. Although considerable progress had been made in education in the Congo, the educational system was not adapted to the needs of the country's economy and this had resulted in dependence on foreign expertise for training in science and technology as well as teaching. The Congo spent a considerable amount of money on training courses outside, fellowships, payment of technical assistance etc. Such expenditure was estimated at several billion CFA francs per year. The number of trainees and scholarship holders overseas was also considerable compared to the country's population.

31. The study it was said, was interesting and provided useful information on an important subject. It raised questions on the substitution of services provided outside the Congo by Congolese sources. From that point of view it could be argued that the expenditures were not really leakages.

32. The point was made that it was not accurate to consider imports as leakages and that self-sustaining development was not autarky. Imports could be considered as leakages only when domestic substitutes could be found. That also held true for education where there could be leakages only when the services provided by external sources could be provided by domestic services of the same quality. The statement made in the study that there was no vicious circle of development was challenged since the fundamental problem of a developing economy was in fact the vicious circle of development.

Investment codes and resource leakages: The case of Togo, ESTEG, Togo

33. This study which was prepared by ESTEG, Togo was introduced by a member of the Secretariat, since the author could not attend the Workshop. The subject dealt with investment codes and the methods used to encourage foreign capital. Togo's present investment code was adopted in 1965 and had been revised three times. The code covered four types of benefits defined on the basis of the amount of capital invested and offering fiscal advantages with regard to custom duties and taxes on profit. The study considered 76 enterprises which benefitted from the code. It appeared that the Togolese investors (75 per cent majority) were subject to discriminatory treatment. In order to measure the leakages caused by the system, the study estimated the losses to the public treasury and the transfer of capital effected by the beneficiary firms.

34. The representative of the Secretariat pointed out that the study was very pertinent but the method of evaluating the leakages left something to be desired: it should have compared the value added by the beneficiary firms with the fiscal losses and with the transfers of capital, in order to determine whether there had been a leakage or not. Moreover, there was the question of whether investments would have been made in the absence of the code.

35. One participant stated that the Togolese study dealt with a basic problem. It was a commonly held opinion that tax advantages were necessary to attract investments. In Nigeria, for example, investors did not contribute their own capital but borrowed from local banks in order to transfer their profits later. In investment codes there were many clauses allowing the leakage of capital. Another participant observed that it would have been necessary to have a sectoral breakdown of enterprises benefiting from the investment code. One participant disagreed with the argument to the effect that investment codes favoured the leakage of capital. If Nigerian capital, for example, was invested even by a foreign operator, that could only be beneficial, since the question of transfers was separate from the advantages obtained through the code. Finally, another participant pointed out that there was a ruinous competition regarding the tax advantages granted to investors, which were much higher than was really necessary.

Resource leakages in Upper Volta: The case of pilgrimages, by T.J.H. Kabore CEDRES, University of Ouagadougou, Upper Volta

36. In introducing the paper, Prof. Kabore stressed the importance of this priliminary study on international capital movements. It seemed that a new trend in the movement of capital from the developing to the developed countries was making itself felt. This phenomenon could be explained by the adoption of the countries of the third world of excessively liberal legislations in the field of capital movements.

37. Referring to the first part of the study on pilgrimages, he stressed that the collection of information and statistical data had been particularly difficult and that the estimates of the phenomenon made in the study might even be much higher. Projections based on existing trends revealed that there would be a substantial loss of foreign currency in the near future.

38. With regards to the second part of the study, he emphasised the negative aspects of bilateral and multilateral aid. Projects financed with external assistance gave rise to a considerable outflow of economic resources and thus deviated from the initial purpose for which they had been intended. In particular, he quoted the case of an agricultural project a large part of the financing of which had left the country in the form of salaries for foreign experts and counterpart contributions for the purchase of capital goods. External assistance, he concluded, was self-defeating.

39. On the question of leakages caused by migratory movements, tourism and the payment of profits on foreign capital invested in Upper Volta, Prof. Kabore said that according to his estimates, some CFA franc 1 billion entered Upper Volta as private investments but CFA franc 3 billion left the country in the form of interests and profits.

40. In the discussion that followed, one participant pointed out that foreign aid per se could not be considered as a source of leakages. It would be better if the discussion concentrated on the rationality of capital use and management.

41. With regard to the question of pilgrimages, most of the participants felt that they could not be considered merely as a source of leakages. Pilgrimages had roots which went far beyond economic and financial considerations. However, a better organization of religious pilgrimages would be desirable in order to minimize their costs in foreign currency.

42. In his reply to the questions raised by the participants, the author of the study said that the question of pilgrimages should be tackled from a macro-economic rathern than a micro-economic viewpoint. Taking into account the whole of the community, the leakage of foreign currency caused by pilgrimages was considerable.

43. With regard to external aid, the author reaffirmed his view that, in many cases, foreign aid gave rise to a whole series of leakages, which almost equalled the amount of capital initially invested.

Unsuitable technology and resource leakages in African economies: The case of Zaire, by Ngalamulume Tshilumbayi, IRS, Kinshasa

44. The above-mentioned study was introduced by its author, who said that definitions of unsuitable technology and leakages of financial resources were not included in his study because such questions had already been dealt with in the report of the first Workshop (document SERPD/WLAE/83/3) which was the basis upon which the studies for the current meeting had been prepared. He briefly outlined the main findings and conclusions of his study. With respect to the first part on technical co-operation, he said that in many cases foreign experts had been imposed on Zaire by the governments or organizations financing projects whereas local personnel could effectively manage the projects. With respect to technology, which was the subject of the second part of the study, he said that foreign experts were often entrusted with tasks such as prefeasibility studies which they carried out at the detriment of the country. Projects were more often than not badly designed and had disastrous social and financial consequences. Examples at the end of the study, in that connexion, were very illustrative.

45. In the ensuing discussion, one participant said that very often the ignorance and incompetence of negotiating officials were to blame for the selection of technology which proved to be unsuitable. Another participant said that in many cases, governments were not free to choose the technology they wanted. Technology was thrust upon them from outside and national technicians working on projects could only express their opinions without influencing decisions taken at other levels. A representative of the Secretariat added that more often than not governments forget that there was a national technology which could be more efficiently applied in industrial production activities. With respect to the problem of foreign experts there were not enough Zairian graduates involved in the management of enterprises.

46. In his reply to the observations and comments of participants, the representative of IRS, Zaire said that the problem of the choice of technology hinged on his country's industrialization process. Very often external pressure forced governments to accept a number of foreign experts in the management of projects financed within the framework of bilateral and multilateral co-operation agreements and to adopt unsuitable technology which was the main cause of most of the country's economic resource leakages.

Leakages in African economies and their impact on available development resources and on the increase of the external debt: Part I - The structurally dependent economies of Southern Africa, Part II - The case of Lesotho prepared by E. Michael Mhlanga for the Institute of Southern African Studies, National University of Lesotho

47. In presenting his study the author said that the study was not exhaustive because of time limitations and the complexity of the subject. There was consequently no single method of analysis. Most of the data came from official opinion and documentation.

48. The study shows that underdeveloped countries have remained in a state of perpetual dependency because of structural distortions and rigidities forced on them by their integration into a world economy from a position of weakness. In Southern Africa a chain of inter-relations in the region has resulted in an increasing drain of resources from the smaller economies of Botswana, Lesotho and Swaziland (BLS) to the more developed South African economy. The study concentrates on three aspects of dependency, namely the South African dominated labour market, the open market created by the Southern African Customs Union and the open money market particularly relevant to Lesotho and Swaziland.

49. The author outlined in great detail the way in which these three most pervasive elements of dependency have operated together to undermine the productive capacity as well as the independence of the BLS economies to the extent that today the latter are characterised by heavy dependence on the export of labour, imported consumer goods (including foodstuff) distorted financial markets, as well as heavy dependence on custom union recurrent revenues.

50. The specific case of Lesotho which is the most structurally dependent of the BLS countries is covered by Part II of the study.

51. In the discussion of the study the author was generally commended for the comprehensiveness and clarity of the analysis. The statistical information contained in the study was particularly convincing and revealing.

52. By way of general observations on the study, it was noted that current public policies to eliminate or minimize dependency - induced leakages should have been covered more adequately. In particular, the long-term role of the subjregional organizations which have recently been established - namely, the Lusaka-based MULPOC, SADCC and the PTA, on the overall redirection of the BLS economies away from South African domination should have been treated more exhaustively. This point was well taken; nevertheless, it was pointed out that the BLS countries were doing all in their power to reorient their economies. Indeed as stated in the study the question

of restructuring the economies has been central in all individual national programmes of the BLS countries. It, however, stands to be seen whether the emerging anti-South African domination regional economic organizations will reduce leakages from BLS countries especially in the growing threat of South African military intervention and the fact that SADCC concentrates on large-scale international projects which can easily become white elephants following minor international misunderstandings.

53. With regard to the political implications of some statements made in the study particularly in respect of the very marginal benefits that BLS derives from the institutional arrangement existing between them and Southern Africa, the author stated that the language used in the study was in fact very mild. There were other studies which use even more agressive language.

54. The estimates of labour costs contained in the study were said to be technically questionable. The method used should have taken the domestic wage rate into account.

55. The wisdom of establishing automatic rather than discretionary monetary systems in Swaziland and Lesotho was questioned. The monetary authorities in these countries operated in a such away that they had no free hand in the issue of currency. They could not use interest rates to influence monetary policy. One indeed wondered whether the costs involved in these systems did not out-weigh the benefits. In response to these queries it was pointed out that there were many advantages in the establishment of these monetary authorities. Lesotho and Swaziland could now keep records of domestic and international monetary trends, control their portfolio investments, train their own personnel etc. Having a national currency also had the added advantage of a symbol of nationhood.

56. The point was made that dependency was both ways. BLS depended on South Africa as much as South Africa depended on them. It was noted that while this was true, resource flows were unindirectional and towards South Africa only.

57. It was said that in combating dependency much depended on the political will of the leadership in the country. Dependency should not be taken for granted. From the data available in the study it appeared that Swaziland and Botswana were doing more to redirect their resources than Lesotho. For instance, a higher proportion of commercial bank loans was put in agriculture and industry in the former two than in Lesotho. It was explained that the trend in Botswana was approximating that in Lesotho, i.e. more commercial bank resources were being directed to the distribution sector which sector largely serviced products of South African industries. It was further explained that investment in industry particularly manufacturing was relatively high in Swaziland largely because of the presence of South African firms there.

58. Some further clarifications on the legal basis of employment contracts of BLS migrant workers in South Africa were sought. This, it was explained, was to be found on pages 13 and 14 of the study.

Outline, content and implementation of the overall study on leakages (agenda item 4)

59. Under this agenda item a representative of the Secretariat presented a draft outline of the document to be published on resource leakages in Africa, under the joint auspices of ECA and CODESRIA. The representative of the Secretariat commented on the outline and the possible contents of each part. The draft outline consisted of the following six parts:

- Introduction
- Theoretical framework
- Financial resource leakages in African economies
- Case studies
- Policy issues
- Conclusion.

60. A detailed discussion followed the presentation. The participants agreed in principle with the plan proposed by the Secretariat. It was generally agreed that the overall study should adress researchers, planners and policy makers. The need to make the document as readable as possible was stressed. It was also decided that the institutes participating in the study could if they wish publish the results of their own work separately. The final outline of the study as approved by the Workshop is as follows:

- Introduction
- Conceptual framework
- Origin and magnitude of resource leakages
- Major policy recommendations
- Conclusions

61. The meeting agreed that the study would deal with the main aspects of the problem both from a theoretical and an empirical point of view based on the case studies prepared by the research institutes. The case studies themselves could form the subject of a separate publication. It was stressed that the study should as far as possible take into account the political economy of the region and that this should be particularly reflected in the introduction. The special problems of the Southern African countries also should receive special mention.

62. The Workshop called upon the ECA Secretariat and CODESRIA to co-ordinate all preparatory work needed for the publication of the document. The two Organizations should convene a final meeting before the end of the current year to approve the study before publication. Meanwhile, the institutes should provide the ECA Secretariat with summaries of their respective case studies and their contributions on both the theoretical aspects of the problem and on general policy recommendations. The ADB was invited to play an active role in the drafting of the section on general policy recommendations. The representative of the ADB agreed to transmit this invitation of the Workshop to the Bank. The ECA Secretariat was to follow this up and to inform the institutes of the decisions taken in this respect and to give them all other relevant information in the preparation of the study.

Report to the Third Session of the Joint Conference of African Planners, Demographers and Statisticians (agenda item 5)

63. Under this agenda item the Workshop decided that, in view of the importance of leakages in African economies, it would wish to bring to the notice of African planners, the result of work done in the area so far and that envisaged for the future. To this end the Workshop invited the attention of African planners to the reports of both the first and second Workshops, i.e. documents SERPD/WLAE/83/3 and SERPD/WLAE/84/4/Rev. 1. The Workshop had also set up a small Committee to draft the main conclusions and recommendations of this meeting for the attention of the Planners. The following is the statement of that Committee:

Conclusions

64. The issue of leakages in African economies is of direct relevance to the most pressing problems of the region. At a time when Africa is confronted with an acute balance of payments problem, and when requests for foreign assistance are mounting, it is a paradox to see that large payments are being made abroad for items of not clear utility for the development and welfare of the population. It is disheartening to realise that African economies are being deprived of sizeable resources through the illegal manipulation of the customs and exchange systems. The study of leakages is therefore not only of academic interest, it is also of immediate value to planners and policy makers. A solution of the leakage problem in Africa would mean a substantial increase in the resources available for investment and for further and more rapid growth of African economies.

65. A most pervasive source of resource leakages in African economies is the operation of the external sector particularly in as much as this sector is totally circumscribed by the structurally dependent nature of African economies on industrialized countries. The fact also that the structure of the external sector has itself remained unchanged since colonial times with exports dominated by primary products and imports by finished and semi-finished products and with a structural dependence on foreign services to handle the region's trade has left ample scope for resource leakages especially foreign currency.

66. The overinvoicing of imports and the underinvoicing of exports are particularly important sources of illegal appropriation of foreign exchange. In countries such as the Sudan the phenomenon has its roots in colonial external trade relations. In other countries the practice is very evident in the transfer pricing system of multinational corporations. This is particularly true of countries such as Nigeria. Currency overvaluation which encourages imports and depresses exports and exchange control restrictions which encourages the retention of foreign currency abroad are also contributory factors promoting underinvoicing and overinvoicing.

67. A large proportion of financial leakages also occur in the various elements of the invisible account. These leakages are however the least known and the most difficult to assess. They are believed to be substantial particularly in shipping, insurance, foreign travel, tourism, investment income and other services. In the area of maritime transport, for instance, the fact that fleet ownership and cargo controls were primarily the preserve of transnational corporations which engaged in vertically integrated operations means that African countries which use these services sustain significant avoidable surcharges in payments.

68. Foreign exchange spent on legitimate travel for business, medical, religious, holiday and educational reasons does not per se constitute leakages. Some travel, notably pilgrimages are however assuming serious proportions and a better organization of religious pilgrimages is desirable to minimize their cost in foreign exchange. The rising cost of foreign education at a time when African educational institutes at all levels have increased substantially should also be a cause for concern.

69. Real and significant leakages also occur in the capital account particularly in the form of both disguised and open capital outflows whether through legal or illegal means. Evidence from Sudan indicate that substantial resource loss is incurred in workers' remittances.

70. Often foreign exchange is officially used for purposes which are not compatible with the optimal utilization of development resources. This has led to a further accumulation of external debt than is actually required. This has been the case particularly when loans obtained abroad are used for prestige projects on economic and social infrastructure projects with long pay-off periods. The tying of aid itself, limits the ability of governments to make procurements at the most competitive prices thereby constituting an important source of resource leakage.

71. Industrialization processes and strategies generally pursued by African countries provide ample room for leakages as the maximum utilization of domestic resources is not encouraged or promoted. Import substitution strategy is known to create leakages. Evidence shows that the import of heavy capital and raw materials as well as the insufficient emphasis placed on the utilization of indigenous skilled manpower in industrial processes create avenues for leakages in resource use and in foreign exchange transfers. Transfer pricing of firms through corporate profit taxes, import duties, exchange risk exposures and remittances abroad from profits and dividends are also known to generate considerable leakages.

72. Investment codes, established primarily for encouraging the import of capital, encourage leakages by providing excessive tax holiday privileges, generous terms for the repatriation of profits and other types of incentives. In Nigeria, for example, some foreign investors do not bring in capital from abroad but borrow locally to finance investment and yet obtain fiscal advantages over indigenous investors.

73. In the area of technology transfer and acquisition evidence from Zaire and Nigeria shows that leakages arise not just from selection and acquisition procedures but also from the unsuitability of the imported technologies in the economies. Technology is acquired as a package which precludes indigenous people from utilizing or developing any part of their productive resources. Opportunities to learn are lost by these countries. Indigenous people are not often trained as required in acquisition agreements, with the result that repairs, maintenance and plant operations are often left in the hands of foreign experts and technicians.

74. The "brain drain" is a serious problem facing African countries. The causes of the phenomenon are both economic and political. Unremunerative wages, the lack of adequate amenities as well as a hostile political environment all contribute to a perpetuation of the problem. Closely related to this is the fact that there is often a mismatch between the content of education and the needs for social and economic transformation.

75. A number of countries have established monetary systems or participate in multinational monetary arrangements which operate to distort their financial markets.

76. Management and consultancy services are channels through which a large amount of foreign exchange is dissipated. This occurs mainly through training courses organized abroad, technological transfer, and licence agreement between subsidiaries and multinational corporations.

77. The foregoing categorization constitute the more common sources of resource leakages in African economies. Other types of resource leakages of course occur variously in different countries. Among these one should mention investment abroad, delays in releasing investment funds, official corruption and unrecorded trade.

General policy recommendations

78. In broad economic terms, solution to the leakage problem in Africa should be sought through the vigorious pursuit by governments to restructure the African economy such that greater dependence is placed on the domestic sector. Such restructuring calls for the maximum use of domestic resources and potential in meeting local needs.

79. Research and development for the development of agriculture, technology and industry should be encouraged. In particular greater support should be given to research institutions especially in respect of finding alternative sources of raw materials for domestic production.

80. Attitudes to government policies need to become more positive. Closely related to this is the need to stamp out corruption, indiscipline and inefficiency among public officials. The work ethics of the African bureaucrat should be altered to become more functionally oriented, and achievement centred.

81. Where restrictive procedures on exchange control, imports etc. have to be adopted, these should be properly streamlined so that loopholes are minimized.

82. Regulations relating to joint ventures between African and foreign businesses should be seriously reviewed with a view to streamlining the regulations in the light of prevailing realities of the African economy.

83. The objectives of collective self-reliance through regional co-operation among African countries should be vigorously pursued within the framework of the Lagos Plan of Action.